BoardRoom Press

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The Journey Ahead

My kids spend time at school on what is known in today's parlance as "social and emotional learning." They are given a "toolbox" of simple things they can rely on when things get tough. One of my favorites is the "garbage can tool." In short, it means to put things behind you that you can't fix and move on. This new year is one in which I believe the garbage can tool should be relied on regularly. We must not forget the hard lessons we learned last year, but rather use that new knowledge as strength to move on. We have new tools in our toolbox, along with old, trusty tools that have been sharpened and honed.

Our first issue of *BoardRoom Press* was inspired by the power of looking forward. Now is a great time to make that list of resolutions for your board and organization—that list of hard things that need to get done so that we can put things that get in the way of progress behind us. Strategic transformation, renewing your focus on accelerating value (with equity at the center), the strategic role and importance of the CEO when it comes to philanthropy, and a look at board size and its impacts on governance effectiveness are discussed in this issue—this could be the list of priorities for any board this year. Finally, we have an article about speaking out on the hard issues. There are times when we can (and should) make a stance to the public—we can do a better job of letting the public know who we are and what we stand for. Knowing when, why, and how are key skills for the board to develop in 2024.

Kathryn C. Peisert,
Editor in Chief & Senior Director

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GOVERNANCE SUPPORT FORUM
September 8–9, 2024
The Broadmoor
Colorado Springs, Colorado

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September 8–11, 2024
The Broadmoor
Colorado Springs, Colorado

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Strategic Transformation Is Hard But Necessary During Healthcare's Post-Pandemic Era

By David A. Tam, M.D., CPHE, FACHE, Beebe Healthcare

David A. Tam, M.D., CPHE, FACHE
President and CEO
Beebe Healthcare

The transformation of American healthcare systems has been necessary for a long time. Even before the COVID-19 pandemic, healthcare faced mounting challenges that foretold the need for major transformation. Unfortunately, leaders have been reticent in making the difficult changes needed to deal with the many environmental influences that were placing greater challenges on health systems, especially independent community organizations. As a result, efforts to address issues focused on large-scale mergers and acquisitions, reduction in services, and closures, often resulting in a negative impact on rural and isolated communities.

A review of American population trends would have also foreshadowed the difficulties healthcare systems face today. With the well-documented tidal wave of baby boomers approaching retirement age, the need for healthcare growth, in terms of capacity and capability, should have been predicted and acted on. The increasing concerns over Medicare and other funding sources for healthcare were indicators that government funding would be stressed and that the focus of these programs would shift from a fee-for-service approach to one of prevention and health promotion.

COVID-19 only accelerated the dramatic pace for the need to transform. Public and community health are best served at the local and community level, but the pandemic universally sapped the energies of independent systems. The terrible impacts of labor shortages were most magnified in rural and isolated areas, and global economies that were already struggling were easily tipped over by inflationary forces that led to large-scale financial challenges for the healthcare industry.

Healthcare systems must now face a period of rapid strategic transformation like never before.

The Foundation of Change

I started as a new CEO of an independent community health system in March 2020. It had always been my ambition to lead an independent health system focused on the care of a community, and Beebe Healthcare and its role in Sussex County, Delaware, seemed an answer to a dream. I packed up my office belongings in a small U-Haul, leaving California and a job at one of America's largest health systems to drive across the country. Before I reached the halfway point, my wife's call about the viral epidemic that had now been declared a global pandemic transformed my journey as a CEO overnight.

Like other organizations, Beebe staff struggled through the challenges of the COVID-19 pandemic. For a while, the strategy was simply the day-to-day struggle to survive the supply shortages, the halt of elective procedures, and the decisions necessary to keep the workforce healthy and stable.

But following the first year of the pandemic, Beebe's governing board approved a new strategy to transform the organization that would continue to ensure Beebe's market share in a rapidly growing community.

The first strategic step taken was for the board to reassess governance processes. It determined that transformation should start with the foundational basis of how the board makes decisions and guides the organization. Completing this 12-month board transformation while the pandemic was still going, the board initiated a new strategic planning process following an assessment of the organization's operational state, considering the many influences affecting the healthcare industry.

The planning was facilitated by a national consulting firm and engaged community members, as well as Beebe team members, focusing on transforming the health system to survive and even thrive despite the many forces buffeting healthcare. That strategic plan was completed in less than a year and presented to the public as "their" strategic plan—in many ways a covenant of what Beebe Healthcare committed to do to transform itself and remain a vibrant and critical part of the community.

Reimagining Executive Areas

As COVID-19 waned and healthcare began facing the many new challenges that came in an accelerated fashion during the post-pandemic era, management at Beebe discovered that the solutions needed to recover were in many ways tied to the greater efforts of system transformation. It underwent a major reorganization of the executive team to both flatten the structure and better "matrix" daily operations and strategy.

Strategy is no longer something that sits in a binder—nor a separate Web site. Rather, it is continuously blended with operational focuses and tactics. For example, reducing lengths of stay are not only tied to decreasing ER wait times or staffing expenses, but also to strategic efforts to create and execute an updated master facilities plan that allows the ability to move inpatient beds geographically and improve accessibility for patients throughout our diverse community. Daily departmental expense management is not simply to improve margins but directly linked to strategic initiatives for acquiring information management systems to support greater population and community health initiatives.

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>>> KEY BOARD TAKEAWAYS

Healthcare boards and senior leaders can commit to strategic transformation within their organizations by doing the following:

- ✔ Recommit to a community health focus within the strategic plan.
- ✔ Plan with agility, starting with the top and then down as boards must look inward for new solutions.
- ✔ Build multipurposed strategies and tactics that serve the community's benefit and the organization's finances.
- ✔ Align the board, management, and culture to further match the organization's long-term strategy.

> *Strategy is no longer something that sits in a binder—nor a separate Web site. Rather, it is continuously blended with operational focuses and tactics.*

Voice of the Board: Speaking Out on Speaking Out

By David Jarrard, Jarrard Inc.

When should your organization publicly speak out on the bedeviling issues of our day?

In an era of eroding faith in historic institutions, healthcare providers remain among the most trusted institutional voices in the communities they serve. Many have earned their strong reputation and great brands over years—if not decades—of steadily providing quality care and stewarding the health of their communities. Most are driven by far-reaching missions of healing and wellness that extend well beyond the double doors of the ER.

How and when should providers use their trusted voice to weigh in on matters beyond traditional care? After all, we have all watched organizations speak out in recent years on the hottest topics of the day and significant sociopolitical issues. Surveys have told us that consumers—particularly younger adults—want to hear from businesses about their position on major current events.[1]

Know your desired outcome of speaking out and fold this into your "why." If you're not seeding action, why speak?

As of late, though, we have seen a retraction of corporate social activism. Consumer and political blowback to some corporate positions have had challenging consequences. As Axios wrote this fall, "no business wants to become a political football."[2]

Speaking out—and intentionally remaining silent—on current events bears serious thought before action. Public commentary is becoming more complex. More is expected—even demanded—of leaders in today's vacuum of trust. Even on events half a world away, passions are running high in our communities. Global news is local news. It may spill into your ER, your town hall meeting, or your boardroom.

Healthcare organizations exist to protect and promote the health and thriving of every human in our care. Ask caregivers on any floor: they have dedicated their professional lives to this calling and are fueled by passion for it. The surprise would be if healthcare leaders did *not* have a strong emotional response to what's pouring onto our screens—whether the epidemic of gun violence in America, inequity concerns, or wars in far-off lands.

Many healthcare leaders have, in fact, weighed in over the last few months, often unequivocally denouncing violence, rejecting hatred, acknowledging the need for inclusivity, offering supportive mental health resources, and expressing concern for the physical safety of their staff and clinicians. Even so, as these conflicts persist and tensions remain high, the public statements and internal memos of six weeks ago are being thoughtfully evaluated and re-evaluated. The news changes. New information adds color and texture the public didn't know before. Do an organization's original words still hold true? Does every fresh horror call for a new response?

Constructive Commentary

Taking a stance is a political moving target that lies outside of many leaders' comfort zones. In moments of controversy, some healthcare leaders have a modicum of safety leaning on mission-oriented messages with evergreen relevance. Thus, saying the "right thing" in situations like these requires a proactive communications strategy that bolsters the organization's identity, values, voice, and mission.

Leaders choosing to take a bold stance should not simply parrot the common line. Instead, they should view their commentary as an opportunity to differentiate their organization, engage deeply with their stakeholders, and expand their audience.

By speaking out on weighty topics, you can:

>>> KEY BOARD TAKEAWAYS

- ✔ **Phrasing is everything.** In the public eye, words are combustible. The smallest spark can generate a controlled flame or an inextinguishable inferno. There's no room for error or misinterpretation—every word must be carefully considered and delicately rendered when crafting a statement.
- ✔ **Remember the cascade.** Your statement is not an isolated reflection; it's a corporate position that may ripple through your nursing units and to your patient examination rooms. It's part of your workforce experience. Equip your management with the tools they need to listen effectively, guide conversations as appropriate, and enable people to express themselves.
- ✔ **Consider the future.** What precedent is being established? Will speaking on the issue create an expectation that your organization will now weigh in further on this or other issues? If not, what makes this issue—and your accompanying statement—unprecedented?

Questions to Ask Now

When weighing the pros and cons of taking a stance, boards and senior leadership can discuss the following to help in their decision:

- **Know your why.** Why speak? Is there a rational connection between breaking news and your organization's core beliefs, values, or vision for the world? If so, what's the purpose of your message? Is it an emotional catharsis,

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1 Constantine von Hoffman, "Public Wants to Know Where Brands Stand on Issues, Surveys Show," MarTech, May 23, 2022.
2 Eleanor Hawkins, "Support Declines for Corporate America's Political Involvement," Axios, October 10, 2023.

Driving Value and Equity in Health System Transformation

By Rick Gilfillan, M.D., Independent Consultant

Hospitals and health systems are squarely on the horns of the "Innovator's Dilemma." After a heroic response to COVID, many now face financial and operational challenges that threaten their viability. America's decline in life expectancy and ever higher healthcare costs continue to clarify the need for higher value and more equitable healthcare. But hospitals and health systems seem to be pulling back on the limited efforts they made in that direction. Meanwhile, for-profit innovator firms, operating in a gold rush mentality under the banner of "value-based care," have built alternative delivery approaches that threaten the key drivers of hospital sustainability. Now, the largest for-profit organizations in the U.S.—Amazon, Walmart, and CVS—are acquiring and scaling up those disruptors to position them to control much of the total national healthcare spend, projected to be $6.6 trillion by 2031.

The dilemma: hospitals and health systems need to decide whether they will disrupt their current business model to compete with these firms or simply stay the course and risk becoming a commoditized minor player in healthcare's future.

>>> KEY BOARD TAKEAWAYS

The board can start now by diving into a deep, generative discussion with the following questions as a guide:

- ✔ Is the CEO clearly and visibly committed to leading this transformation?
- ✔ What is the organization's stated strategic intent regarding becoming a high-value health system that addresses inequities and SDOH?
- ✔ Is the strategy reliant on indiscriminate provision of more health services or on producing better health for the population served?
- ✔ What are the strategic objectives that capture this intent?
- ✔ What are the specific goals that are targeted to demonstrate success?
- ✔ How can the organization overcome the internal and external obstacles to transformation?
- ✔ Are the internal incentive systems aligned with the value transformation and health equity objectives?
- ✔ Are the resources provided for the value and health equity objectives adequate to drive the desired results?
- ✔ How has the organization approached the cultural changes required to be successful?
- ✔ Is the board willing to take bolder action to hold management accountable for transformation?

The Case for a High-Value and Equitable Health System

America's Health Is Declining

America's life expectancy has decreased for two years and diverged from that of other countries for over 40 years (see **Exhibit 1**). We now live six years less than people in comparable countries.

Healthcare Spending Uses More Resources Producing Worse Health Status

Healthcare accounts for 20 percent of the difference in health status. Seventy (70) percent is due to the "social influencers of health" (see **Exhibit 2** on the next page). We spend much more on "sick care" than on efforts to address prevention.

And despite much higher poverty rates, as seen in **Exhibit 3** on the next page, U.S. social spending lags behind comparable countries while we spend twice as much on healthcare.

Persistent inequities continue with Blacks seeing a life expectancy of about six years less than whites.

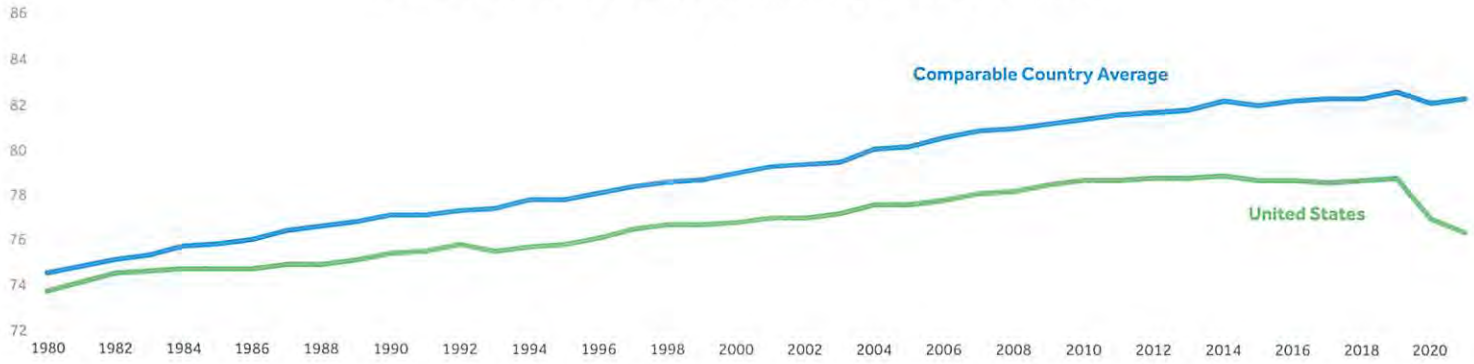
We Need to Move the Money

We need to redirect spending from an inefficient "sick care" system to leveraging social support systems that can truly improve health. The need to move to a higher-value and more equitable health system has never been clearer.

Current Environment for Providers

Prior to the COVID pandemic, the movement towards high-value and equitable care was gaining significant momentum. But these efforts have now stalled because, after a heroic response,

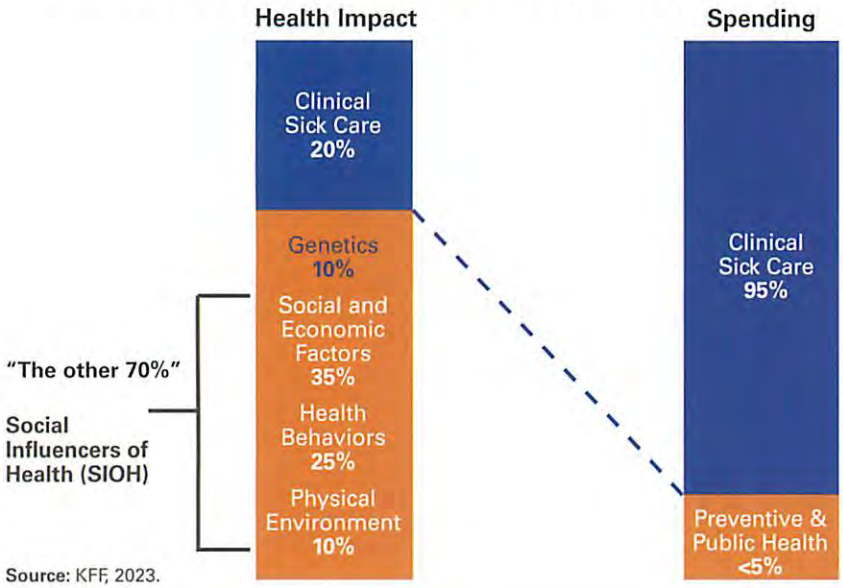
Exhibit 1: Life Expectancy in America vs. Other Countries



Notes: Comparable countries include Australia, Austria, Belgium, Canada, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the U.K.

Source: KFF analysis of OECD and U.K. Office for Health Improvement and Disparities data.

Exhibit 2: Most Spending Goes to Sick Care Not Prevention



Source: KFF, 2023.

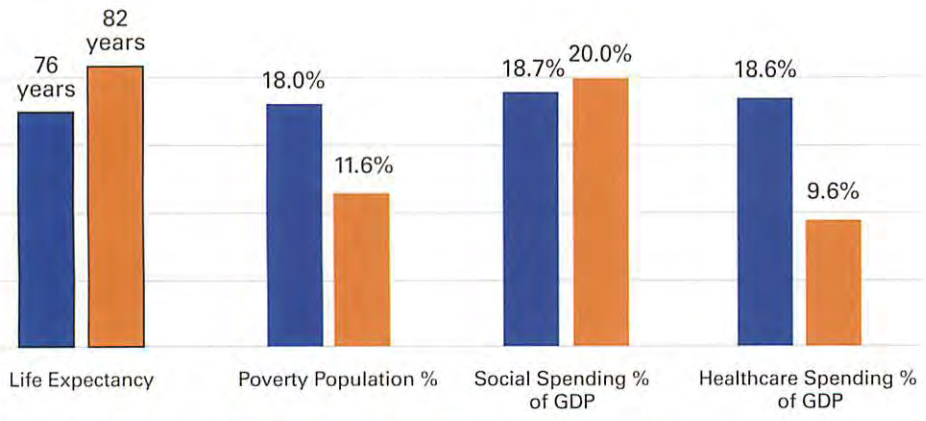
non-profit healthcare providers are facing a major existential crisis driven by:

- Capacity limits
- Revenue shortfalls
- Staffing shortages and wage inflation
- Supply inflation
- Decreased volumes

While some of the strongest non-profits with typically strong market positions have reestablished a sustainable margin, the majority face continued financial losses. The natural result has been to decrease investments in what are seen as marginal or non-essential activities, including their value and equity transformation initiatives. The Governance Institute's 2023 biennial survey of hospitals and healthcare systems shows a continued decline in activity since 2019 at the board and management level regarding value-based care strategies, setting goals and metrics related to value, staffing, adding board members with specific skills, and other related activities.[1] The decline in activity in these areas is most significant from 2021 to 2023; for example, 11 percent of responding organizations added value-based payment goals to their strategic and financial plans in 2023, compared with 38 percent in 2021.

Gold Rush: The rapid influx of fortune seekers to the site of newly discovered gold deposits.

Exhibit 3: Life Expectancy, Social Spending, and Healthcare Spending in the U.S. and Other Countries



Source: KFF, 2023.

What Would a High-Value Integrated Health System Look Like?

- 50 percent of population served are aligned with system PCPs.
- Payment for aligned patients would be full capitation—through ACOs.
- 50 percent of patients served are receiving acute episodic care via value-based contracts/episode-based payment.
- All physician services are billed as office, not facility based.
- All outpatient services are reimbursed via Medicare Fee Schedule.
- Outpatient services are built as free-standing—not hospital based.
- There are internal pre-authorization or appropriateness screening systems.
- Physicians are paid via non-productivity systems.
- PCP practices are heavily incented to focus on prevention.

The Healthcare Gold Rush

At the very time hospitals and health systems are pulling away from value-based care efforts, the projected $7 trillion healthcare spend by 2031 has attracted a rush of for-profit new entrants that invested over $1 trillion dollars over the past 10 years and $205 billion in 2021 alone. Investors are pursuing two tracks that pose a direct threat to non-profit health systems:

1. **For-profit skimming of profitable clinical delivery services:** Investors have established new entities to systematically peel away the more profitable clinical services from hospitals. These include inpatient facilities in high-income areas, outpatient surgery sites, imaging facilities, specialist practices, urgent care sites, and micro-hospitals in high-income areas, among others.
2. **Total-cost-of-care contracting:** Payers have historically used risk contracting to align providers with efforts to decrease costs. Simply put, this creates a total medical cost target for a population based on historical spending. They then give a provider responsibility to manage that total cost. If the

1 Kathryn Peisert and Kayla Wagner, *Think Bold: Looking Forward With a Fresh Governance Mindset*, The Governance Institute's 2023 Biennial Survey of Hospitals and Healthcare Systems.

Obstacles to Value Transformation

Hospitals and health systems face internal and external obstacles:

Internal:
- Today's financial challenges
- "Status quoism"
- Fear of self-disruption

External:
- Limited payer commitment
- Policymaker view of non-profits
- Competition

Addressing these will entail a great deal of effort that will require CEO leadership and clear board support. Internal obstacles will vary in strength greatly by institution but there are many no-regret strategies for all health systems:
- Build the primary care network to grow accountable population.
- Build a low-cost outpatient network.
- Build care coordination across the system—including hospitals.
- Grow attributable population.
- Build relationships with other accountable entities.
- Consider owned MA plan or partner with insurer.
- Decrease cost of production.
- Continue digital transformation.
- Participate in Medicare ACO programs.
- Participate in Medicare Episode-Based Payment Program (BPCI).
- Build analytical capabilities.

Overcoming the external obstacles will require health systems to be seen as committed to value transformation. National and state provider associations will have to become strong advocates for this path. The goal would be to convince policymakers at all levels to demand that payers, often dependent on government programs, implement total-cost-of-care contracts with health systems.

costs end up being less, the provider keeps the savings. If more, they accept the loss. The intent was to decrease costs to the insurer and thus the ultimate payer.

Medicare Advantage (MA) is the privatized version of Medicare through which CMS pays private insurance companies to provide benefits to individuals that enroll directly into their plans. Expected to provide coverage for less and save the government money, over 35 years these companies instead have cost the government much more. Estimates of these overpayments are $75 billion in 2023 and over $600 billion over the next eight years.[2] One major driver is the ability of MA plans to make their patients appear sicker by submitting more diagnoses to CMS. The sicker a patient appears, the greater the overpayment from CMS.

MA plans have added one wrinkle to the total-cost-of-care contract. They base the medical cost target on a percentage of the payment they get from CMS. Because the payment is based on the number of diagnoses, the at-risk provider now has a powerful interest in submitting more diagnoses. Investors have created new companies like Oak Street Health and Agilon Health to take advantage of these contracts. With investor backing and strong stories about easy profits, these groups have grown rapidly. United Healthcare's Optum subsidiary is the largest total-cost-of-care contracting entity and is now providing more than 50 percent of United's $20 billion in annual profits.

Summit Health and Duly Health and Care (formerly DuPage Medical Group) are two examples of firms that have done similar total-cost-of-care contracting with commercial insurers. In those contracts, the main savings opportunity is to simply redirect care away from expensive hospitals sites to their own outpatient sites of care.

The success of these total-cost-of-care contracts has caught the attention of large, publicly owned companies that are pursuing America's total healthcare spend. CVS/Aetna spent $10 billion to acquire Oak Street and Signify, two MA coding-based driven firms. Walgreens has acquired Summit Health for $5 billion. Amazon acquired Medical One/Iora Health for $3.9 billion, and now Walmart is rumored to be acquiring ChenMed, an MA firm, for billions. Google, Apple, and Microsoft are all eying the healthcare spend trying to find their way into it as well.

In short, the largest publicly traded tech companies and healthcare insurers in America are positioning to take control of a large majority of America's healthcare spend at the same time that providers are backing away from taking risk. Often these ventures result in dividends, profits, and stock repurchasing for the corporation *without showing any tangible benefits for patients, families, and communities.* Nor do they translate into lower premiums for employers and employees. Moreover, these kinds of ventures increase segmentation of an already overly segmented and complicated delivery system. If this continues, the total healthcare spend, funded by taxpayers, employers, and individuals, will be captured by for-profit firms maximizing their gain not patients' health.

> ***Too often this is a convenient excuse—that payers have a more powerful lobby in D.C. and there is nothing more to be done. But there is always more that can be done and the more voices contributing to this will amp the volume significantly.***

In this world, control of the dollars will mean control of the delivery system. The questions boards need to be asking themselves and their senior leaders are:
- Who will drive the direction of healthcare now?

2 Steven M. Lieberman, Paul Ginsburg, Ph.D., and Samuel Valdez, Ph.D., *Medicare Advantage Enrolls Lower-Spending People, Leading to Large Overpayments,* USC Schaeffer Center for Health Policy & Economics, June 13, 2023.

- Should it be for-profit payer/provider corporations such as United/Optum and CVS/Aetna, for-profit systems such as Tenet and HCA, the tech giants, or private equity?
- Or could it be non-profit integrated health systems?

Making the Case for True Transformation

The Innovator's Dilemma

Higher-quality care improves outcomes—and it is the right thing to do—but has not been shown to result in low costs, despite 30 years of hoping that it would. The only way to spend less on healthcare is to spend less. This means providing fewer services and paying less per unit of service. To be successful in that context means hospitals and health systems must transform to become high-value providers. (See sidebar on page 6 on what a high-value provider might look like.)

As for-profit disruptors expand their steal of the profitable pockets of the delivery model, our patients and communities are vulnerable to a healthcare industry that is no longer mission-driven.

But hospitals and health systems are in the position of incumbents facing the disruptive innovators Clay Christensen described in *The Innovator's Dilemma*.[3] Becoming high-value providers that decrease their prices and volume of services threatens current results at a very challenging time. But for-profit disruptors with control of total-cost-of-care spending will bring that about anyway. Cost-of-care contracts can offer health systems a bridge to a new sustainable model. The question is whether non-profit hospitals and health systems will fight to be total-cost-of-care providers or cede this opportunity to others.

Value-Based Care Commitment to Date

The ACA, passed in 2010, created multiple opportunities for incumbents to begin a transition to higher-value care. Most prominently, the ACO model provided an entry ramp with minimal risk but limited upside opportunity. Today, over 400 ACOs provide care to 13 million Medicare beneficiaries. Over 1,400 hospitals and 500,000 physicians are participating in ACOs. But results to date have been marginal with an average savings of 1–2 percent. Furthermore, physician-based ACOs have been almost twice as successful as hospital-based ACOs.

Policy makers have concluded that hospitals and health systems are not serious about value transformation. Many involved in value work in health systems feel that the commitment has been limited and efforts are at least paused for now, if not in retreat.

The Board Must Be the Driver

There are at least three primary reasons hospitals and health systems can and should lead the value transformation:

- Business sustainability
- Consistent with the charitable mission
- Helps to maintain a mission-driven healthcare industry

Driving this transformation in a larger, wider, more accelerated manner now will require a longer lens. Boards must make the difficult decision to "disrupt" themselves. We have already seen the results of inaction, as health systems are gradually losing business to aggressive innovators who are unencumbered by yesterday's business model. Accountable care models from CMS and others have shown only marginal results, primarily because they are still built on a fee-for-service chassis.

Internally, system transformation requires commitment and execution. Externally, boards need to do more advocacy to create a reasonable business opportunity for true value transformation.

The following paragraphs outline actions boards can take now to drive this transformation.

Changing the Payer Relationship

It is widely understood that the primary reason the value transformation hasn't happened yet is due to barriers related to payers and payment models. But boards and senior leaders can do more to push payers to move into the value space and take this journey together with providers.

Ask for meetings and explore the offers with each payer in your market. Engage payers to partner with you in designing new systems that are sustainable rather than preserving old systems, to create a viable value-based care model that includes a meaningful approach to impact SDOH.

Furthermore, boards should encourage their chief executives to push the AHA to make this point louder in the national discourse and place more pressure on Congress to force payers to change the way they do business. Too often this is a convenient excuse—that payers have a more powerful lobby in D.C. and there is nothing more to be done. I argue that there is always more that can be done and the more voices contributing to this will amp the volume significantly. Advocacy is a core responsibility of the non-profit healthcare board, and always an area that is overlooked due to other concerns that may seem more important. At the end of the day, if you don't try, there won't be change.

Conclusion: Why Do It?

Change is hard. We know the status quo, so when we come into work every day, we know what to do and we can keep doing it. We worry that if we move towards value too fast it will erode our revenue, so we don't want to be the leaders in the value space—we want to wait and see how others do it and if they can be successful before dipping our toes in. But treading water is impossible in a cyclone created by the rush of healthcare disruptors. Take a hard look at your organization's mission and think about whether you can continue to fulfill it without this transformation. What is the right way to keep people healthy? What is your fiduciary responsibility today, when the old business model is fading or failing? As for-profit disruptors expand their steal of the profitable pockets of the delivery model, our patients and communities are vulnerable to a healthcare industry that is no longer mission-driven. It's time to focus on solutions, to stop "waiting and seeing," and become the drivers of positive change that put America back on track to be the healthiest, not just the wealthiest country in the world.

The Governance Institute thanks Rick Gilfillan, M.D., Independent Consultant, for contributing this article. He can be reached at gilfillanr9@gmail.com.

3 Clayton M. Christensen, *The Innovator's Dilemma: The Revolutionary Book That Will Change the Way You Do Business*, Harper Collins, 2011.

The Rising Role of the Healthcare CEO in Philanthropy—and Why Board Action Must Support It

By Betsy Chapin Taylor, FAHP, Accordant

>>> KEY BOARD TAKEAWAYS

- ✔ Given health philanthropy provides a ROI of $4.96 for each dollar invested, does the organization currently position and support philanthropy at the right level?
- ✔ If philanthropy is a key revenue source to enable reinvestment in the mission, what are the board's expectations for CEO involvement and support?
- ✔ How can the board appropriately reflect the importance of CEO involvement in philanthropy in the CEO's job description, annual goals, and incentives?
- ✔ Does the board understand how philanthropy is currently utilized in the health system and what can be done to optimize the efficiency and effectiveness of philanthropy to support investment in capital, clinical programs, community health, and more?

Philanthropy—voluntary, charitable giving from individuals, corporations, and foundations—can provide the low-risk, high-ROI revenue source healthcare organizations need, and the importance of health philanthropy continues to rise as hospitals face challenges in securing adequate dollars for reinvestment in the mission. Charitable giving to health causes—including not only hospitals and health systems but also health research and advocacy organizations—reached $51.8 billion in 2022.[1] Further, hospitals and health systems achieved median revenue of $11.3 million from philanthropy.[2] Health philanthropy also provides a ROI of $4.96 for each dollar invested in fund development—a rate of return that far exceeds what is possible from *any* clinical service line.[3] As a result, philanthropy has become essential to providing capital and operational dollars to achieve a healthcare organization's potential. Having a high-performing philanthropy program has also become a valued sign of financial fitness; ratings agencies say a successful philanthropy program is an attribute of a sound healthcare organization that can positively impact bond ratings.

The CEO in the Spotlight

As philanthropy has become a lever to organizational excellence, it can no longer be an optional role for the CEO. The CEO has been entrusted with the successful management and financial health of the organization, so it naturally follows that he or she would be obligated to take on a meaningful role in fund development. Simply, advancing philanthropy has emerged as a central, vital component of being an effective leader and of discharging the CEO's fiduciary responsibility in securing financial resources to strengthen and sustain the healthcare organization. Realizing philanthropy's true potential, however, relies upon the healthcare CEO not only recognizing the financial benefits but also taking on a proactive role in areas where the CEO is uniquely positioned to add value.

There are many reasons why the CEO plays a critical role in philanthropy, and optimized CEO involvement is much more than an appearance at the foundation gala or saying a few words about philanthropy at a public event. The CEO is the face of the healthcare organization in the community, and no one else carries the same gravitas when walking in the room. Further, no other organizational leader is as effective in conveying the organizational vision for the future, instilling a sense of trust and confidence in the organization, or rallying internal resources and advocates.

A Linchpin in Donor Relationships

The CEO brings the stature, prestige, and credibility of his or her office in building stronger relationships. The CEO is uniquely positioned to give donors confidence in the organization's strengths, strategic vision, and plans; those considering substantial investments in an organization's vision would also want to meet the individual who will ensure the diligent implementation of the proposed vision. CEO involvement is also an element of demonstrating respect to those who are or would be the organization's staunchest allies—significant donors are accustomed to having access to and interaction with an organization's top leaders. Thus, the involvement of the CEO is essential to securing transformational gifts.

Embracing Multiple Internal Roles

Beyond the valuable donor-facing role of the CEO, there are important internal roles the CEO is uniquely positioned to address. The symbolic and tactical importance of the CEO in prioritizing philanthropy within the organization cannot be overstated since no other organizational leader has the stature and relationships to single-handedly deploy the organization to advance philanthropy—or not. The CEO's verbal support, physical presence, and active modeling signals that philanthropy is important, elevates it on the agenda, sets expectations, unleashes resources, and builds momentum with advocates.

> *The CEO can ensure fund development is recognized as a revenue center rather than a cost center and can advocate for investment in the program consistent with the level of financial opportunity that exists.*

Other ways the CEO can enhance philanthropy include:

- **Ensure strategic alignment.** The CEO ensures charitable dollars are directed to the organization's highest priorities rather than being squandered on optional or low-value projects and can facilitate access to information about multi-year objectives, the supporting rationale, timeline, cost, and more. The CEO fosters alignment with philanthropy by including the Chief Philanthropy Officer (CPO) in key strategy conversations both to hear the dialogue and to provide perspective on the likelihood of donor support for an initiative. The CEO also collaborates with the foundation board to ensure a shared vision for the role of philanthropy in enabling future plans.

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1 *Giving USA 2023: The Annual Report on Philanthropy for the Year 2022*, Chicago: Giving USA Foundation, p.22.
2 *2023 Report on Giving for FY2022*, USA Association for Healthcare Philanthropy, 2023.
3 *Ibid.*

Strategic Transformation...

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Pressing Forward

There are many hurdles to overcome in this rapid transformation. For instance, whether a culture change is required to move the organization forward in a new direction; the challenge of traditional approaches for an independent non-profit health system to acquire capital is untenable during this difficult time of financial changes; and an increase in competition by not only other traditional health systems but for-profit private equity and healthcare amalgamations such as Apple, Walmart, and CVS. All these require greater agility and resilience, which come from organizational adherence to a well-constructed and executed strategic plan.

And still, Beebe Healthcare faces similar challenges other health systems are experiencing: it cares for a growing population of baby boomers who have greater healthcare needs than previous generations. As such, Beebe is transitioning rapidly from a fee-for-service environment to a value-based system, while redesigning the organization's outdated workflow processes. It is also navigating antiquated healthcare capital sources that emphasize and favor a robust balance sheet instead of a promising enterprise profile, while at the same time facing the immediacy of a workforce shortage as the stresses of healthcare place a greater demand on our heroes more than ever.

But I am optimistic at Beebe Healthcare. It has a board and management team linked together by a strategic plan that directs efforts daily. As long as the sense of agility in decision making and execution is maintained, Beebe has the capability to continue to remain a local, non-profit, independent community health system that serves the people who live, work, and visit our home.

The Governance Institute thanks David A. Tam, M.D., CPHE, FACHE, President and CEO, Beebe Healthcare, for contributing this article. He can be reached at dtam@beebehealthcare.org.

Voice of the Board...

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The further the issue is from your doors, the more you must work to connect your comments to your credibility, or risk diluting it.

a kind of "same here" posture, or a deeper reflection of your organization's purpose and plans? Does speaking out advance your mission?

- **Calculate your constituent cost.** To say these issues are complex and deeply nuanced is to test the limits of words. Have you considered the politics of your stakeholders? Have you considered your position given the kaleidoscope of communities you serve? This is not to suggest you cower from saying what you believe is the right thing. Instead, it's recommended that you anticipate the cost of your statement and its potential friction with your audiences and move forward having made that calculation.
- **Decide on the call to action.** What is your desired outcome of speaking out? Is there a call to action, a "So, therefore..." that draws your audience to behave in a certain way? Is it to give to a charity, for example, or to reveal new work or plans underway? Fold this into your "why." If you're not seeding action, why speak?
- **Weigh your authority.** Assess where your voice has the most potency. Brands have the greatest credibility when they comment on issues strongly associated with their purpose. Women's reproductive health? For sure. Gun violence? Yes. Some health systems have clear ties to the global communities; the context for them can be clear. The further the issue is from your doors, the more you must work to connect your comments to your credibility, or risk diluting it.
- **Remember that the messenger is a message.** Who is speaking when your organization speaks? It's not a riddle. As a board member, your great challenge may be to distinguish your personal outlook from the corporate voice of your organization, its plans, its mission, and the communities it serves.

71% of U.S. customers want companies to speak out on important issues.

—Sprout Social Survey

This is hard, thoughtful work. The pounding of social media feeds and the breathtaking urgency of daily developments do not reward the required calculations. But take the time.

Be bold. Lastly, when you choose to speak, speak boldly, clearly, and sharply. You're putting the great power of your hard-earned organizational voice to work in the world to make a difference and to influence the conversation. Don't waste the moment (or weaken your reputation) with feeble language. When you choose to speak out—and there are no doubt times when you should—speak well.

The Governance Institute thanks David Jarrard, Chairman, Jarrard Inc. Executive Committee, for contributing this article. He can be reached at djarrard@jarrardinc.com.

The Rising Role of the Healthcare CEO...

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- **Leverage allies.** The CEO has relationship equity to seek the active involvement of board members, clinicians, and other senior executive allies as connectors, advocates, and influencers. The CEO also can encourage physicians to champion philanthropy by sharing the clinical rationale for strategic projects and by enabling patients to express gratitude for care in a way that respects, affirms, and enriches the patient experience.
- **Make adequate investments.** The CEO can ensure fund development is recognized as a revenue center rather than a cost center and can advocate for investment in the program consistent with the level of financial opportunity that exists. The CEO may sometimes also support expansion of budget and staff resources to build or expand the program even when cuts are required in the healthcare organization's operational budget since dollars invested in philanthropy can be multiplied and returned.
- **Position for credibility.** CEO support is pivotal in positioning the fund development function as credible and strategic. This begins with how the leader positions and engages with the CPO. Key actions include inclusion of the CPO on the executive team to gain access to both information and internal allies. A strong working relationship between the CEO and CPO, based on mutual respect, regularly scheduled interactions, and open communication also enables effective collaboration.

Ultimately, CEO engagement in practical and symbolic roles both inside and outside the hospital is critical to optimize fund development efforts.

Boards Can Validate the Priority

While CEOs acknowledge the valuable revenue opportunity philanthropy presents, many express not having the ability to help with philanthropy due to lack of time. However, time is an issue in part because philanthropy has not been endorsed as an organizational priority, so it's hard to prioritize it relative to other tasks.

Governing boards can affirm the importance of philanthropy as a key revenue strategy and support the CEO's role in advancing philanthropy. Today, most CEOs face the untenable position of needing to provide time and attention to philanthropy when it is not formally recognized as an organizational priority. Yet, if participation to bolster this key revenue source is a leadership activity, the board should honor and evaluate it as part of the CEO's role. Given the CEO serves as an agent of the board, the board not only can set expectations but also align those expectations with performance evaluation criteria and at-risk incentives. Adding philanthropy to the formal list of expectations does not pile on more work but provides a benefit to CEOs by removing a hurdle to dedicating time to philanthropy and by creating a mutual understanding of the CEO's role in supporting philanthropy as a vibrant and sustainable revenue source.

Ultimately, CEO engagement in both practical and symbolic roles can enable philanthropy to flourish. The CEO is instrumental in engaging donors, facilitating allies, and creating an internal environment that supports giving. As the board considers the potential of philanthropy as a revenue source to sustain the mission and strengthen strategy, it's time to formalize the CEO's role in advancing philanthropy.

The Governance Institute thanks Betsy Chapin Taylor, FAHP, CEO of Accordant, for contributing this article. She can be reached at betsy@accordanthealth.com.

The Impact of Board Size...

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the importance of attendance by every member of a smaller group.
- The above factors often result in deeper board engagement and impactful strategic discussion.

Rightsizing the Board

Board leaders and CEOs with overly large boards may be reluctant to change the board's size due to potentially negative reactions from current board members. In most situations, reducing board size over time rather than all at once is advisable. Term limits are also an important tool to manage the size of the board.

Options for gradually reducing board size include:

- Consider reducing or eliminating board seats for all internal executives—other than the CEO—who are serving as voting board members. There are other methods for the board to have contact with and receive input from internal executives.
- Don't automatically advance a director to an additional term at the conclusion of the current term. Instead, establish a standard practice of having a personal conversation with each director to assess the interest level and willingness to commit to the requirements of board service for another term. Directors appreciate the opportunity to specifically decide "yes or no" on an additional term.
- When a board seat opens due to attrition or term limits, don't automatically fill the open seat. Use the occasion to spur a discussion about board size.
- Don't ignore any director with an attendance record that does not comply with bylaws requirements. Schedule a private conversation between the board chair and the director to learn the root cause of the director's poor attendance record. Hopefully the director will reengage with the board. Alternatively, a director may choose to step off the board if unable to commit to future meeting attendance.

Final Thoughts

Boards need to allocate significantly more time to strategic conversation. A deeper level of strategic dialogue is more likely to occur in a smaller group. Board size is a worthy consideration for boards that are seeking more strategic engagement in the boardroom. As in other aspects of governance, decisions about board size must be balanced with board composition that provides a diversity of background, experiences, and perspectives.

The Governance Institute thanks Kimberly A. Russel, FACHE, Chief Executive Officer of Russel Advisors and Governance Institute Advisor, for contributing this article. She can be reached at russelmha@yahoo.com.

The Impact of Board Size on Strategic Governance

By Kimberly A. Russel, FACHE, Russel Advisors

The challenges of the current healthcare environment have led to significant introspection in many boardrooms. Boards are recognizing that "business as usual" is not an effective governance strategy in a post-pandemic world in which providing healthcare services has become even more difficult and complex. Many boards and their governance committees are reexamining their governance practices and processes with the goal of achieving deeper director engagement and more strategic-level governance. This is a worthy goal as The Governance Institute's 2023 biennial survey reports that only 5 percent of boards spend half or more of their meeting time in active discussion of strategic priorities.[1] Board size is a critical element that should be considered by all boards seeking to boost board performance and strategic governance.

Top prospects are more likely to join boards that are structured for full inclusion and participation—so their time investment has more potential to make a difference.

Purposeful Board Size

When considering the ideal number of board members to achieve strategic governance effectiveness, there is not a one-size-fits-all number. Each board must consider its own organizational history and unique set of circumstances. Bylaws often provide a wide range of acceptable numbers of board members. However, in the author's experience, larger boards with 12 or more voting members struggle more with director engagement and strategic focus than smaller boards.

The biennial survey reveals a slight increase since 2021 in the average number of voting board members for system, independent, and subsidiary boards, with government-sponsored hospitals experiencing a slight decrease (see **Exhibit 1**).[2] Of particular concern are the survey results for organizations with more than 2,000 beds and those with 500–999 beds—reporting an average of 22 and 18 voting board members respectively.

Exhibit 1: Average Number of Voting Board Members

	Average (2021/2023)	Median (2021/2023)
Health Systems	15.3/16.8	15/16
Independent Hospitals	11.2/11.3	10/10
Subsidiary Hospitals	13.8/14.0	14/12
Government Hospitals	8.3/8.0	7/7

The purpose of this article is to suggest that boards (or governance committees) should periodically discuss optimal board size. Board size should not be on autopilot but should instead be an intentional governance decision. The observations and insights noted below can be used to frame this discussion.

Larger Board Size Considerations

- With a larger board, efforts to ensure that board composition encompasses a diversity of thought, background, and experiences can be accelerated due to a larger number of board seats turning over each year.
- Facilitating discussion is more difficult in a large group (especially if some or all members are participating virtually). Directors often find themselves competing for airtime during group discussions.
- When robust participation is limited due to many people around the table, director disengagement may result. Lack of participation opportunity may lead to turnover when a director is disappointed with limited time to contribute at board meetings.
- Cliques and sub-groups may naturally develop, which is antithetical to governing as a team.
- The executive committee may absorb a disproportionate level of responsibility and decision making. This can result in disengagement from directors who are not executive committee members.

>>> KEY BOARD TAKEAWAYS

- ✔ Optimal board size should be discussed and actively determined by the board.
- ✔ Size is a factor in a board's ability to conduct effective strategic discussions at board meetings.
- ✔ Boards that are too large for all members to speak and participate at each meeting risk director disengagement and turnover.
- ✔ Top director prospects will prioritize boards where they can fully participate and their time will have the most impact.
- ✔ Smaller boards must be intentional in maintaining a diverse board composition.
- ✔ Board size can be reduced gradually rather than abruptly.

Smaller Board Size Considerations

- Smaller boards may be disadvantaged by a lack of diversity of thought, background, and experiences. To overcome this potential negative, smaller boards must be very intentional about board composition and board recruitment.
- Term limits are important to ensure that governance is periodically refreshed.
- Successful recruitment of top board talent is often facilitated by a smaller board. Potential board members are very busy with competing demands on their time. Top prospects are more likely to join boards that are structured for full inclusion and participation—so their time investment has more potential to make a difference. For example, a director serving on a board of 10 versus a board of 20 has a more impactful voice and vote on the smaller board.
- Pre-meeting preparation requirements are usually well-respected by members of smaller boards; directors generally feel significant responsibility to "carry their own weight" at board meetings.
- Attendance is generally strong among smaller boards; directors recognize

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1 Kathryn Peisert and Kayla Wagner, *Think Bold: Looking Forward with a Fresh Governance Mindset*, The Governance Institute's 2023 Biennial Survey of Hospitals and Healthcare Systems.
2 *Ibid.*